Message Text

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13
ACTION ARA-20

INFO OCT-01 ISO-00 EB-11 COME-00 TRSE-00 INT-08 SCI-06

SCEM-02 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 AID-20 DRC-01 NEA-10 /156 W
--------------------- 012217
R 151158Z DEC 73
FM AMCONSUL RIO DE JANEIRO
TO SECSTATE WASHDC 9839
INFO AMEMBASSY BRASILIA
AMCONSUL SAO PAULO

C O N F I D E N T I A L RIO DE JANEIRO 4611

E.O. 11652: GDS
TAGS: ENRG, BR
SUBJECT: BRAZIL'S ECONOMY AND THE PETROLEUM CRISIS

1. SUMMARY: AVAILABLE EVIDENCE INDICATES BRAZILIAN PETROLEUM SUPPLIES DURING FIRST HALF 1974, AND PERHAPS THROUGHOUT YEAR, WILL APPROXIMATELY EQUAL THOSE OF SAME PERIOD LAST YEAR. PROBLEMS WILL RELATE PRINCIPALLY FROM PRODUCT DEMAND INCREASE CURRENTLY ESTIMATED AT 10 TO 12 PERCENT ANNUALLY, AND IMPACT OF HIGHER PRICES ON RAPIDLY DEVELOPING ECONOMY. REFINING CAPACITY FULL UTILIZED IN 1973 CANNOT BE AUGUMENTED FOR 1974. IMPORTING SUPPLIES OF REFINED PRODUCTS OBVIOUSLY WILL BE DIFFICULT. HIGHER 1974 CRUDE COSTS CONSIDERED MANAGEABLE WITHIN PRESENT FINANCIAL OUTLOOK. END SUMMARY.

2. HEADS OF SEVERAL U.S. PETROLEUM, AUTOMOTIVE, AND BANKING COMPANIES OPERATING IN BRAZIL ON DECEMBER 13 MADE EFFORT TO ASSESS WITH CONGEN REPRESENTATIVES THE SUPPLY AND ECONOMIC IMPACT ON BRAZIL OF PETROLEUM SITUATION.

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3. INFORMATION AVAILABLE TO THESE COMPANIES INDICATES

THAT EXISTING COMMITMENTS REASONABLE ASSURE BRAZILIAN
CRUDE IMPORTS DURING FIRST HALF 1974 AT LAST YEAR'S LEVELS.
BRAZIL REGARDED BY THEM AS FAVORABLY SITUATED BECAUSE
OF ADEQUATE SEPT 1973 BASE FOR CONTINUING SAUDI ARABIAN CRUDE
SHIPMENTS, AND AGGRESSIVE PRESENT GOB POLICIES IN SEEKING
GOVERNMENT-TO-GOVERNMENT ARRANGEMENTS. BEING ONE OF FIRST
TO BUY CRUDE FROM NATIONALIZED BASRA FIELDS, IT APPARENTLY
IS PICKING UP ALSO SOME CRUDE FREED AS RESULT OF ARAB
WITHHOLDING ON SALES ELSEWHERE.

4. CRUDE IMPORTS LARGER THAN LAST YEAR, IF SUCH SHOULD
BECOME AVAILABLE, WOULD NOT HELP MEET PRODUCT DEMAND
INCREASE UNTIL REFINERY CAPACTIY AUGMENTED, WHICH NOT
AVAILABLE UNTIL 1975. PROSPECTS FOR SUPPLYING ANNUAL
INCREASED REQUIREMENTS THRU REFINING IN OTHER COUNTRIES,
AND/OR IMPORTING REFINED PRODUCTS, NOW UNCERTAIN.

5. OUTLOOK FOR 1974 THUS CONSTRUED AS TIGHT BUT
MANAGEABLE. PRINCIPAL TIGHTNESS WILL BE IN GASOLINE
AS BRAZIL REFINERIES NORMALLY HAD SOME SURPLUS IN
OTHER PRODUCTS. LIMITATIONS ON GASOLINE USE HAVE NOT
BEEN IMPOSED BUT ACCORDING TO REPORTS WOULD BE LIKELY
IN EVENT ASSURED STOCKS IN SIGHT DROP BELOW 90-DAY LEVEL.
IF IMPOSED, RESTRICTIONS EXPECTED TO BE ALONG LINES OF
PROHIBITING GRIVING ON SUNDAY, THEN SATURDAYS IF
NECESSARY, ETC. MEANWHILE PETROBRAS AND PRESS ARE INITIAT-
ING CAMPAIGN ENCOURAGING ECONOMY IN GASOLINE USE.
DRASTIC PRICE INCREASES BELIEVED LIKELY IN JANUARY 1974
ALSO MAY HELP LIMIT CONSUMPTION INCREASES.

6. NEWSPAPER SOURCES HAVE REPORTED AVERAGE CRUDE
PRICE NEAR US$4 PER BARREL IN 1973, BUT THIS LIKELY
DOES NOT INCLUDE SPOT PURCHASES LATE IN YEAR. TOTAL
EXPENDITURES IN 1973 FOR CRUDE AND PRODUCTS ARE
TENTATIVELY ESTIMATED NEAR US $800 MILLION. PRESENT
CONTRACTS INDICATE LIKELIHOOD OF AT LEAST US$8 PER
BARREL AVERAGE IN 1974, REQUIRING OUTLAY OF $1.6 BILLION
OR MORE.

7. COMMENT: REACTIONS OF BUSINESSMEN TEND TO CONFIRM
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OUR IMPRESSIONS THAT BRAZIL PRESENTLY IS IN A
RELATIVELY GOOD POSITION. DESPITE A CERTAIN AMOUNT
OF MISINFORMATION RELEASED THROUGH PRESS, BRAZILIAN
OFFICIALS APPEAR FULLY AWARE BOTH SHORT- AND LONGER-
RUN ASPECTS OF OIL CRISIS. THEY SEEM TO BE SKILLFULLY
EXPLOITING BRAZIL'S FAVORABLE POLITICO-ECONOMIC POSITION.
BRAZIL IS RELATIVELY SMALL (IN COMPARISION TO US) CONSUMER
OF CRUDE. IT IS NOT DIRECTLY INVOLVED IN MID-EAST DISPUTE,

AND IT CAN ALSO BECOME A SIGNIFICANT SUPPLIER OF CAPITAL
GOODS TO ARAB COUNTRIES. THUS MAJOR EFFECTS OF
PRESENT CRISIS MAY BE CONFINED LARGELY TO PRICE
EFFECTS WHICH, WHILE POTENTIALLY SERIOUS, PROBABLY
CAN BE MANAGED.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SUPPLIES, PETROLEUM PRODUCTION, IMPORTS, PROCUREMENT, BUSINESSMEN, PRESS COMMENTS, RESERVE SHORTAGE, RATIONING, PETROLEUM REFINING
Control Number: n/a
Copy: SINGLE
Draft Date: 15 DEC 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: smithrj
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973RIODE04611
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: RIO DE JANEIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731222/aaaaaqhu.tel
Line Count: 121
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: smithrj
Review Comment: n/a
Review Content Flags:
Review Date: 17 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17-Jan-2002 by thigpegh>; APPROVED <17-Jan-2002 by smithrj>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BRAZIL'S ECONOMY AND THE PETROLEUM CRISIS
TAGS: ENRG, BR
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005